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INFO RUEHBO/AMEMBASSY BOGOTA 5491  
RUEHQT/AMEMBASSY QUITO 1735  
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RUEHBR/AMEMBASSY BRASILIA 7758  
RUEHBU/AMEMBASSY BUENOS AIRES 3277  
RUEHCV/AMEMBASSY CARACAS 1038  
RUEHME/AMEMBASSY MEXICO 3606  
RUEHKO/AMEMBASSY TOKYO 2651  
RUCPDO/DEPT OF COMMERCE WASHINGTON DC  
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COMMERCE FOR 4331/MAC/WH/MCAMERON  
TREASURY FOR MMALLOY  
USTR FOR BHARMAN AND MCARRILLO  
INTERIOR FOR USGS/RESTON DMENZIE AND AGURMENDI  
ENERGY FOR GWARD AND SBROWNE  
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SUBJECT: PERU ENERGY UPDATE

#### SUMMARY

11. This is an update on the following energy sector news from Peru:

- Shell returns to Peru by buying BPZ Energy
- Japanese interested in Peru explorations
- Biodiesel and Ethanol projects seek to meet demand
- Brazilians seek ethanol projects because of PTPA
- Natural gas displaces diesel for power generation
- Wind power feasibility concessions
- Peruvian Navy tanker chartered by BPZ Energy sinks
- PeruPetro to take Amazon officials to Houston.

End Summary.

#### SHELL BACK IN PERU?

12. Shell Oil will return to Peru and purchase BPZ Energy, according to Daniel Saba, Chairman of PeruPetro, the government agency in charge of licensing oil and gas exploration and production. Shell has neither confirmed nor denied the news. BPZ Energy is a small Houston-based oil and gas exploration and production company, which holds four oil and gas exploration and production license contracts covering approximately 2.4 million acres in northwest Peru. Shell discovered the world class Camisea gas deposit in the mid-1980s, but abandoned it in 1988 when no agreement was reached with the GOP for its development. Shell and ExxonMobil returned to Camisea in 1994, but they were again unable to agree on terms with the GOP. Shell left Peru in 1998.

#### JAPANESE COMPANIES TO EXPLORE

13. A PeruPetro official reported that Japanese agency JOGMEC (Japan Oil, Gas and Metals National Corporation) is interested in conducting geologic evaluation studies in Peru intended to support oil and gas exploration investments that Japanese companies are

planning. The official said that several Japanese companies have expressed interest in PeruPetro March 2008 international bid of eleven exploration blocks. In September 2007 Marubeni bought a 10% stake in the Peru LNG Project from Korea's SK Energy, making Marubeni the first Japanese company to invest in energy projects in Peru. Japan's Agency for Natural Resources and Energy reportedly told the Peruvians that several Japanese companies have also expressed interest in installing compressed natural gas plants.

#### BIODIESEL AND ETHANOL SURGE AHEAD

14. The GOP has mandated that starting January 2009, diesel 2 must contain 2% biodiesel, rising to 5% in 2011. Similarly, gasolines must contain 7.8% as of January 2010. Grupo Romero, Peru's largest domestic business group, inaugurated its first biodiesel plant just south of Lima at end-January, with a capacity of 3,000 barrels per day. The plant will use imported soy until plantations in the southern department of Ica are ready. Grupo Romero plans to have its second biodiesel plant ready by mid-year, in the jungle department of San Martin. This plant will be vertically integrated with its own supply of palm oil, which the company has already begun planting in San Martin and Loreto. Grupo Romero already has a sugar cane-based ethanol project in the northern coastal department of Piura with a capacity of 300,000 liters/day. U.S. firm Maple Energy has a 30 million gallons of ethanol per year project in the same area.

#### PTPA ATTRACTS BRAZILIAN ETHANOL

15. Over ten Brazilian companies are negotiating deals with Peruvian sugar producers to jointly develop ethanol projects, according to the president of the Peruvian-Brazilian Chamber, Miguel Vega. Vega says the Brazilians are attracted by the terms of the

recently-signed U.S.-Peru Trade Promotion Agreement (PTPA), under which Peruvian ethanol will enter the U.S. duty-free. Brazilian ethanol pays a 16% duty in the U.S.

#### ELECTRICITY FROM NATURAL GAS

16. With water from the high Andes and insufficient domestic oil, Peru had relied on hydro (68%) and thermal (32%, mainly diesel) power generation. The Camisea project began bringing natural gas to Lima in 2004, allowing natural gas to largely displace the more contaminating diesel. Three natural gas-fired power plants were commissioned between December 2006 and July 2007, helping natural gas account for 26% power generation in 2007. Approximately 78% of Peruvians have electricity in their homes, compared with 53% in 1990. The 22% of Peruvians without electricity are in jungle and rural areas, and the GOP's rural electrification program aims to increase electrification to 83% by end 2008. Four power transmission projects will be concessioned through international bid in the first half of 2008.

#### NATURAL GAS FOR VEHICLES, INDUSTRY, HOMES, PETROCHEMICALS

#### WIND POWER FEASIBILITY

17. The Ministry of Energy and Mines (MEM) has thus far granted six temporary concessions for feasibility studies of wind power generation projects, and five more projects have filed applications.

Three of the temporary concessions are in the northern department of Piura. The state-owned power distribution company ADINELSA is reported to have determined that probable wind generation potential in the Peruvian coast is about 65,152 megawatts (MW). Peru's total installed energy capacity at the end of 2007 was about 5,900 MW.

#### TANKER SUNK AT BLOCK Z-1

18. On January 30, the 7,500 barrel capacity tanker "Supe," chartered by BPZ Energy from the Peruvian Navy, caught fire and sank near a platform. Thirteen Peruvian Navy sailors working aboard the Supe were injured by the fire, one of whom subsequently died. The tanker was being used to store oil produced at two wells of BPZ's offshore Block Z-1 in northwest Peru. The regional government of Tumbes reported that the tanker sank with 260 barrels of oil, 20% of the 1,300 barrels it had at the time. Press reports said BPZ sent

two experts from the U.S. to evaluate the environmental impact, and the Peruvian Navy said that it sent special spill control equipment and personnel to the area.

#### OFFICIALS TAKE AMAZON TO HOUSTON

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19. Perupetro officials will peddle their upcoming international bid of eleven exploration blocks in Houston on February 8, taking advantage of NAPE (formerly North American Prospect Expo) 2008. Perupetro will be joined by indigenous leader Cesar Sarasara, president of the Confederation of Amazon Nationalities of Peru (CONAP). Perupetro officials are hoping to blunt criticism from environmental groups.

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